INFORMED BUDGETEER

THE BUDGET AGREEMENT REACHES HONG KONG!

- Hong Kong will convene this week the World Bank/International Monetary Fund annual meeting with officials from 180 countries. The current chaotic Asian financial markets are providing an unexpected but appropriate focus on what, if any, role the IMF should play in today's global marketplace.

- Following the July 2 devaluation of the Thai currency, the IMF and regional governments provided a $16 billion rescue package for Thailand, $4 billion of which will be loaned from the IMF's basic resources to rebuild the depleted Thai central bank reserves. $2.6 billion will be released only when Thailand meets specific economic targets and structural reforms.

- **The IMF is expected to ask members for an extra $100 billion to secure the necessary resources to meet future emergencies, the US share could equal up to $15 billion.** This would be added to the IMF's basic reserves--the Quota-- which was last increased in 1992 to $200 billion.

- The Balanced Budget Act of 1997 (BBA), like the 1990 agreement, includes a provision that will allow an adjustment to the discretionary caps for budget authority only -- reflecting an increase in the US quota as part of the IMF review. Congress must still enact legislation authorizing the US quota increase.

- These events will make policy makers ask: is a "moral" hazard created if investors begin to expect emergency bailouts? Will such actions invite careless investing?

- The ability of a $300 billion reserve to stop systemic risks (if such an enigma exists) is questionable in a global economy with daily foreign exchange turnover of over $1.2 trillion. Nevertheless, government and private financiers worldwide still turn to the IMF for solutions in times of market uncertainty.

- Should the IMF be bailing out governments with faulty economic fundamentals who ultimately bail out investors that, according to theory, should bear the risk relative to the higher return? Or can a crisis in Mexico or Thailand spread to neighboring economies to a degree great enough to warrant a bailout?

- In the summer of 1996, the IMF warned Thailand that their economic policies could cause speculation on their pegged-to-the-dollar currency. Following the Thai devaluation and bailout, economists are asking whether the Thai bailout was warranted, and is the IMF is expanding resources for future bailouts.

- This question in Hong Kong will be joined in the U.S. Congress next year when the BBA IMF cap adjustment is before it.

MEDICARE+CHOICE PAYMENT RATES FOR 1998

- The BBA established Medicare+Choice, a new part C of Medicare, which replaces and updates the Medicare HMO risk contracting program. The HMO program was established in the 1982 Tax Equity and Fiscal Responsibility Act (TEFRA).

- Under Medicare+Choice, beneficiaries will have more private health plan choices and an improved process for selecting their coverage. In addition to HMOs, Medicare+Choice plans can also be preferred provider organizations (PPOs), provider sponsored organizations (PSOs), private fee-for-service plans, and medical savings accounts (MSAs). The BBA also substantially altered the payment rates for HMOs and other Medicare+Choice plans.

- Under TEFRA, HMOs were paid 95% of the average area per capita cost (AAPCC) in a county. The BBA establishes a payment rate in each U.S. county which will be the highest of three alternative payment calculations: a so-called "blended rate" of area specific and national rates; a minimum payment, equal to $367 in 1998 and indexed to the "Medicare +Choice growth percentage" in later years (see table below); or a minimum increase of 2% over the prior year's payment rate.

- The blended rate for each county starts with their 1997 AAPCC rate. Then, medical education costs are phased out of the AAPCC, beginning with a 20% carve out in 1998. The remaining rate is then indexed to the growth rate in national average per capita costs, less a specified percentage (the "Medicare+Choice growth percentage") to come up with the area specific rate.

- Finally, this area specific rate is combined in a formula with the average national costs per capita, modified to reflect some local health care input costs. Over time, more weight is given to the national average cost, and less to the area specific rate.

Factors in Calculating Medicare+Choice Payment Rates

	Growth % = natl avg per capita cost minus	Medical Ed carve-out rate	County/natl blending %
1998	0.8%	20%	90%/10%
1999	0.5%	40%	82%/18%
2000	0.5%	60%	74%/26%
2001	0.5%	80%	66%/34%
2002	0.5%	100%	58%/42%
2003+	0.5%	100%	50%/50%

- The BBA also included a budget neutrality requirement: In any year, total Medicare+Choice payments are not to exceed the payments that would be made if there was no floor or minimum update. Additionally, the Secretary is directed to apply an across-the-board cut in the blended rate counties to achieve budget neutrality, but this across-the-board cut cannot bring any county below the floor or the 2% minimum update.

- In September, HCFA announced that because overall Medicare cost growth per capita will be only 3.4% in 1998, there is not enough room within the neutrality requirement to give any counties the blended rate. Therefore, in 1998, all counties will either get the $367 floor payment or their 1997 rate plus 2%.

- In fact, HCFA calculates that giving all counties either the floor payment or the minimum update will cost $90 million more than giving all counties the blended payment formula. HCFA, however, has no authority to reduce county rates further to eliminate this cost over the budget neutrality measure.

CURRENT LEVEL -REVENUES: WHY MY HEAD HURTS

- The Senate Budget Committee has not published a formal current level report for 1998 yet (look for it at the end of September), but the *Bulletin* can give readers an advanced look at where revenues are relative to the 1998 Budget Resolution assumptions.

- "Current level" compares the budget effects of enacted legislation to the targets and ceilings set in the budget resolution. Current level is the basis for points of order under Section 311 of the Budget Act.

- The table shows that the budget resolution recommended that revenues be reduced by no more than $7.4 billion in 1998 and by no more than $83.1 billion over the 1998-2002 period. According to CBO, the two reconciliation bills reduced revenues by $9.1 billion in 1998 and by $80.4 billion over five years.

- Therefore, a bill which reduced revenues in 1998 would have a section 311 point of order against it. A bill which did not reduce revenues in 1998 and reduced revenues by less than $2.8 billion over the period 1999-2002 would not have a section 311 point of order against it. However, keep in mind that any bill which increases the deficit, either through tax cuts or spending increases, would have a section 202 (paygo) point of order against it in the Senate.

- Thoughtful budgeteers may say "Wait a minute. I thought the reconciliation bills cut taxes by $95.3 billion".

- Final CBO scoring split out the revenue and outlay effects of the partially refundable child credit, and concluded that $11.5 billion of the $95 billion tax cut was actually an outlay increase. Moreover, JCT originally scored the spending reconciliation bill as increasing revenues by $5.2 billion when it actually increased revenues by $8.6 billion.

Revenue Rack-up (Fiscal Year, $ in billions)	1998	1999	2000	2001	2002	98-02
1998 Budget Resolution						
Recommended change	-7.4	-11.1	-22.0	-22.8	-19.9	-83.1
Enacted Legislation						
Taxpayer Relief Act	-9.5	-7.5	-25.0	-26.3	-20.8	-89.0
Balanced Budget Act	0.4	0.6	1.9	-0.4	6.1	8.6
Total, enacted	-9.1	-6.9	-23.0	-26.7	-14.6	-80.4
Enacted +/- resolution	-1.7	4.2	-1.1	-3.9	5.2	2.8

ENFORCING CHILD SUPPORT ENFORCEMENT

- After 10 years and $2 billion what do you get? Apparently, not a child support enforcement computer system.

- The 1988 Family Support Act extended 90% enhanced matching payments to states for the development of a statewide automated child support enforcement system. Originally States had until October 1, 1995 to develop and implement these systems. However due to a number of problems including delayed federal regulations, contractor delays and overruns, and poor contract management most states could not meet this deadline.

- After costs of over $2 billion only a handful of states met the 1995 deadline. Faced with so many states missing the deadline, Congress extended the deadline to October 1, 1997 for states to meet the 1988 requirements and October 1, 1999 for the new requirements passed in last year's welfare reform bill.

- Today, over 11 states representing almost half the child support caseload will still not meet the deadline including: CA, DC, HI, IL, OH, MD, MI, NV, PA, SD and NM. While some of those 11 states will come into compliance shortly, others -- especially some of the largest states -- are well behind in development.

- The states' record for enforcing child support is dismal. Less than 19% of the children whose orders are enforced through the state's system received a collection from their absent parents in 1995. Nationwide in both the public and private enforcement systems, over $34 billion per year in child support goes uncollected.

- Automation is crucial to helping states cope with complex and growing child support caseloads. In fact automation was deemed so important that Congress extended an enhanced match but also imposed severe penalties for not meeting the development deadline. Without a certified system, a state will not have a plan in compliance with federal law. When the plan is out of compliance, HHS must withhold all matching payments for child support enforcement. In fact, to receive Temporary Assistance for Needy Family (TANF) block grant funds a state must have a child support enforcement plan operational.

- The combination of no matching funds and no block grant funds means HHS should withhold up to $8 billion in child support matching and TANF block grant funding. These penalties will offset the lost child support payments and foregone savings from increased collections. The penalties will not take effect immediately so that states can undergo a hearing and appeals process. The *Bulletin* wonders, given the size of the penalties, how long HHS will drag out the appeals process giving states extra time to complete the systems.

- The *Bulletin* notes that states have had almost a decade to develop these systems. Maybe that is why it should be no surprise that any Congressional effort to stave off penalties will have a Budget Act point of order under pay-as-you-go rules.

BUDGET QUIZ

In honor of the opening of the DC schools, we have included an extra question for our "back to school" Budget Quiz .

Question #1: Is there a budget effect associated with the Durbin amendment to the LHHS appropriations bill to repeal subsection (k) of section 9302 of the Balanced Budget Act of 1997, as added by section 1604(f)(3) of the Taxpayer Relief Act of 1997? The amendment, approved 95-3, repealed the provision which allowed tobacco companies to credit the increased tobacco excise taxes from the Balanced Budget Act of 1997 against the total payments to be made under a tobacco industry settlement agreement.

Answer: There is no budget effect. There was no budget effect associated with the original provision in the Taxpayer Relief Act, hence its inclusion on the list of extraneous provisions (Congressional Record p. S8470) as "producing no change in outlays or revenues." Since there was no original budget impact, there is no budget impact associated with the provision's repeal.

Question #2: On September 15, an article in Bondweek speculated that US agencies might be tempted to issue Euro-denominated debt once European monetary union occurs. Do US agencies issue foreign currency denominated debt already?

Answer: Fannie Mae and Freddie Mac do issue debt securities denominated in foreign currencies. Since mid-1994, Fannie Mae has issued securities in British pounds, German marks, and Japanese yen amongst others. At present, they have over $22 billion in either foreign currency debt or off-shore dollar issues. Foreign issues give the agencies a chance to tap into a larger pool of international investor funds, than if they stayed just with domestic US dollar issues.

- Post-EMU, foreign investors may look even more favorably at any Euro-denominated US agency debt, amidst a likely deterioration in some of the weaker EMU nations' credit ratings. Since these nations will lose their local currency, their domestic debt will effectively become foreign currency debt. Countries' foreign currency debt rating is typically lower than its domestic rating, since a country can always print money to repay its domestic creditors, but can not do so with foreign currency bond holders.

- If investors are attracted to the US agencies' solid credit ratings, this will have the beneficial effect of reducing agencies' borrowing costs within Europe. While a rise in Euro-denominated US agency debt might point to a stronger Euro/weaker dollar as money flows into Euro securities, this is not necessarily the case. Frequently, issuers of foreign currency debt swap back into US dollars so that they do not have currency exposure.

SBC TASK FORCES CREATED

Three task forces were recently created by the Budget Committee. The committee task forces will examine funding issues in three areas; Social Security, Education and International Affairs. The task forces will conduct oversight hearings, investigations, and studies to help determine funding level recommendations in next year's budget cycle. Additionally, the task forces will form a partnership both the General Accounting Office and the Congressional Budget office to conduct their work. The task force Chairmen and Ranking Members are:

Social Security: Senator Juda Gregg and Senator Ernest Hollings

Education: Senator Bill Frist and Senator Babara Boxer

International Affairs: Senator Gordon Smith and Senator Paul Sarbanes.